



MEMORANDUM

Date: April 13, 2001

To: Electricity Oversight Board Members:
Ms. Kari Lynn Dohn, Member
Mr. Bruce G. Willison, Member
Senator Debra Bowen, Member
Assemblyman Roderick D. Wright, Member

From: Ben T. Arikawa, Senior Economist

Subject: Item 6B California Independent System Operator's Market Stabilization Plan

This is a status report only and requires no action.

As part of a more than year-long process to redesign its markets and to help stabilize the current electricity crisis in California, the California Independent System Operator (CAISO) proposed a Market Stabilization Plan (MSP). The MSP is meant to address the problems with California's electricity markets: the high cost of real time energy purchases, the high percentage of actual load that is not matched with generation day ahead, and megawatt (MW) laundering¹.

The major elements of the plan are:

1. Resource Specific Cost-based Bid Caps (RCBC)
2. CAISO day ahead and hour ahead energy markets
3. An obligation for generation under Participating Generator Agreements (PGAs) to serve California load under capacity shortage conditions at RCBC.

The CAISO has held several conference calls to discuss the MSP with market participants. On these conference calls, market participants raised the following issues:

1. Will the obligation to serve California load first create problems with reciprocity or retaliation by other control areas?
2. How will energy limited resources be treated as they will not be allowed to set market clearing prices?
3. Who would be the creditworthy party to financial back the CAISO purchases in the new day ahead and hour ahead markets?
4. Will the day ahead and hour ahead markets be duplicative of the current efforts of the California Energy Resource Scheduler (CERS)? (CERS is the division of the California Department of Water Resources (CDWR) that is the purchaser of the investor owned utilities net short position.) How would congestion be managed?
5. If the CAISO buys too much day ahead, who will pay for that mistake?

¹ MW laundering is also known as "ping pong" scheduling. This occurs when large amounts of energy are scheduled for export, but return in real time as an out of market purchase at a much higher cost.

6. Will the new day ahead market just add more complications to the electricity markets without adding additional supplies?

The CAISO anticipates filing the MSP with the Federal Energy Regulatory Commission (FERC) by the end of this month in order to influence a FERC decision on California market structure and market power mitigation. This decision is expected by May 1.

The CAISO plans on implementing the FERC plan by late May or early June in order to have structure in place before the beginning of summer.

The CAISO Board of Governors recently voted to form a Market Advisory Group in order to advise them on the technical and legal aspects of the MSP. The members of this Group will be chosen at a meeting scheduled for Tuesday, April 17.